

Message Text

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ACTION EUR-12

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AMCONSUL ADANA
AMCONSUL IZMIR

C O N F I D E N T I A L ISTANBUL 2313

E.O. 11652: GDS
TAGS: ENRG, EIND, BDIS, TU
SUBJECT: NEXT ROUND IN MOBIL/GOT REFINERY NEGOTIATIONS

REF: (A) ANKARA 4861; (B) ANKARA 4583

SUMMARY: MOBIL OIL THREE WEEKS AGO SUBMITTED DRAFT PROPOSAL TO GOT COVERING THE SALE OF ITS INTEREST IN ATAS REFINERY AND ARRANGEMENTS FOR ITS CONTINUED PRODUCTION AND MARKETING SYSTEMS IN TURKEY. CASANOVA, MOBIL DIRECTOR, WAS SUMMONED TO ANKARA TO MEET WITH TPAO DIRECTOR ISMAIL ERTAN JULY 26. ERTAN, NOW OFFICIAL NEGOTIATOR FOR GOT REGARDING MOBIL'S CASE, HAD NOT BEEN ADEQUATELY BRIEFED ON PREVIOUS MOBIL/GOT NEGOTIATIONS AND ASKED FOR ONE WEEK TO CONSULT WITH OTHER MINISTERIES. END SUMMARY

1. AS REPORTED REFTELS, IN RESPONSE TO GOT PRESSURE MOBIL HAS AGREED TO SELL ITS SHARE OF THE ATAS REFINERY, WHILE MAINTAINING ITS STILL PROFITABLE DISTRIBUTION AND EXPLORATION OPERATIONS. LOCAL MOBIL OFFICE DRAFTED "PRINCIPLES OF AGREEMENT" THREE WEEKS AGO COVERING FOLLOWING AREAS:
SALE OF MOBIL'S SHARE IN ATAS, MOBIL'S PAST
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ARREARAGES WITH GOT, OUTSTANDING CLAIMS AGAINST MOBIL BY GOT, FUTURE OF THEIR REFINING AND DISTRIBUTION OPERATIONS. AFTER SUBMITTING DRAFT TO MINISTRY OF ENERGY AND HEARING NOTHING FOR THREE WEEKS, MOBIL DIRECTOR CASANOVA WAS SUMMONED JULY 26 TO ANKARA TO MEET WITH TPAO DIRECTOR ISMAIL ERTAN. FOLLOWING RETURN TO ISTANBUL, CASANOVA BRIEFED CONGENOFFS ON HIS MEETING.

2. ERTAN STARTED MEETING BY SAYING HE WAS NOW OFFICIAL GOT NEGOTIATOR FOR RESOLUTION OF MOBIL'S PROBLEMS. HE EXPLAINED THAT IF HE HAD BEEN IN HIS CURRENT POSITION AT THE TIME MOBIL'S PROBLEM STARTED, HE WOULD HAVE OBJECTED TO GOT'S HEAVYHANDED TACTICS. CASANOVA INTERPRETED THIS COMMENT AS INDICATING ERTAN'S OPPOSITION TO DENIZ BAYKAL, MINISTER OF ENERGY AND RESOURCES, AND TO THE WAY HIS MINISTRY HAD DEALT WITH MOBIL. IN GENERAL, CASANOVA CONSIDERED ERTAN MUCH EASIER TO DEAL WITH THAN ANY OF MINENERGY OFFICIALS WHO HAVE BEEN HANDLING MOBIL'S CASE.

3. ERTAN APPARENTLY MISUNDERSTOOD MOBIL'S DRAFT PROPOSAL, SAYING IT OBVIOUSLY ORIGINATED OUTSIDE OF TURKEY, AS IT WAS NOT ATTUNED TO REALITIES OF TURKISH BUREAUCRACY. CASANOVA EXPLAINED THAT, ON CONTRARY, IT WAS NOT A MOBIL INITIATIVE BUT RATHER A RESPONSE TO GOT'S INSISTENT URGING THAT MOBIL DIVEST ITSELF OF SHARE IN ATAS. ERTAN WAS SOMEWHAT TAKEN ABACK WHEN CASANOVA RELATED RECENT HISTORY OF NEGOTIATIONS WITH GOT, AND SID THAT HE OBVIOUSLY HAD NOT BEEN FULLY BRIEFED BY THE MINISTRIES INVOLVED (FINANCE AND ENERGY). HE THEN ASKED FOR A ONE WEEK DELAY BEFORE RESUMING DISCUSSION AND CASANOVA READILY AGREED.

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4. ACCORDING TO CASANOVA, DRAFT AGREEMENT CONTAINS THE FOLLOWING POINTS: (A) SALE OF MOBIL'S 51 PERCENT SHARE IN ATAS ON BASIS OF REFINERY REPLACEMENT VALUE OF DOLS 250 MILLION, AND REMAINING LIFE EXPECTANCY OF NINE YEARS (SINCE REFINERY ALREADY IN OPERATION FOR 16 YEARS. THIS MEANS MOBIL'S FIRST OFFER FOR ITS SHARE IN ATAS IS DOLS 250 MILLION X 51 PERCENT X 9/25 OR APPROXIMATELY DOLS 46 MILLION.) NOTE: REF A REPORTS CASANOVA'S EARLIER EXPECTATION THAT MOBIL WILL ONLY RECEIVE DOLS 20 MILLION . (B) CONVERSION OF GOT'S CURRENT ARREARAGE TO MOBIL OF DOLS 111 MILLION TO SEVEN-YEAR DEBT, INCLUDING THREE YEARS' GRACE. IN FACT, SAID CASANOVA, IF GOT SHORT OF CASH (AS IS ALMOST CERTAIN) TO PURCHASE MOBIL'S SHARE IN ATAS, THE PURCHASE PRICE COULD BE COVERED BY ADDITIONAL SEVEN-YEAR LOAN. (C) GOT WOULD RAISE OFFTAKE PRICE OF MOBIL-PRODUCED CRUDE OIL. MOBIL SAID ITS FIRST PROPOSAL WAS ADDITIONAL TWO DOLLARS PER BARREL. (D) GOT WOULD ENSURE 10 YEAR SUPPLY OF REFINED PRODUCTS FOR MOBIL MARKETING SYSTEM, BASED ON MOBIL'S SHARE OF 1977 MARKET. (E) GOT WOULD ASSUME RESPONSIBILITY FOR TERMINATION BENEFITS TO BE PAID TO MOBIL WORKERS AT ATAS. MOBIL PROPOSED THAT MONEY FOR THIS WOULD BE

MORE THAN COVERED BY SALE OF MOBIL SHARE OF ATAS LAND, WHICH MOBIL VALUES AT APPROXIMATELY TL 200 MILLION, AS OPPOSED TO TERMINATION BENEFITS' LIABILITY ESTIMATED AT TL 120 MILLION. (F) GOT DROP ITS OUTSTANDING CLAIMS AGAINST MOBIL. THESE INCLUDE TL 45 MILLION NOT DEPOSITED WITH CENTRAL BANK FOR ITS LAST TWO IMPORT SHIPMENTS OF CRUDE OIL, AND TL 670 MILLION CLAIMED BY PREVIOUS ECEVIT GOVERNMENT AS EXCESS MOBIL REVENUES.

5. IN SHORT, SAID MOBIL, THEY ARE READY TO BARGAIN. THEY BELIEVE THAT FINAL AGREEMENT COULD BE IRONED OUT WITHIN ONE WEEK. HOWEVER, FOLLOWING SIGNATURE OF PRINCIPLES OF AGREEMENT, FOLLOW-ON DOCUMENTS REGARDING MODALITIES OF TRANSFER WOULD STILL HAVE TO BE CONFIDENTIAL

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NEGOTIATED. IN INTERIM, SAID MOBIL, IT WOULD BE HAPPY TO PROCESS TPAO CRUDE AT ATAS REFINERY, BUT WITH ITS OWN PERSONNEL. MOBIL IS ADAMANT THAT NO TPAO PERSONNEL ASSUME CONTROL OF ATAS UNTIL TRANSFER IS COMPLETE.

6. CASANOVA SAID GOT SHOULD HAVE NO PROBLEM GETTING MOBIL'S FOREIGN PARTNERS, SHELL AND BP, TO SELL THEIR SHARES. IN FACT, HE REPORTED SHELL HAS ALREADY AGREED IN PRINCIPLE TO SELL, WHILE BP HAS ASKED FOR RE-NEGOTIATION OF ITS 2 1/2 YEAR OLD OFFER TO SELL, CLAIMING THAT IT IS OUTDATED.

7. CURRENTLY, SAID CASANOVA, THE GOT IS SQUEEZING MOBIL FROM THE OTHER DIRECTION -- BY CUTTING OFF ITS SUPPLY OF REFINED PRODUCTS FROM TPAO REFINERIES. CASANOVA CLAIMED THAT ITS DISTRIBUTION FACILITIES IN ISTANBUL AREA HAD BEEN DRY FOR PAST TWO MONTHS. HE BROUGHT THIS TO ERTAN'S ATTENTION, WHO PROMISED TO CHECK INTO IT. COMMENT: NOW THAT GOT HAS MORE OR LESS OBTAINED MOBIL'S AGREEMENT TO DIVEST ITS ATAS SHARE, IT IS APPARENTLY TAKING A LESS ANTAGONISTIC TACK. THE APPOINTMENT OF ERTAN, AN INDUSTRY INSIDER, TO DEAL WITH MOBIL GIVES SOME PROMISE THAT THE GOT WANTS THE TRANSFER TO PROCEED SMOOTHLY. HOWEVER, THE PROOF OF THE PUDDING IS IN THE EATING AND UNTIL MOBIL RECEIVES A REPLY TO ITS DRAFT PROPOSAL, IT IS DIFFICULT TO PREDICT THE COURSE OF THE NEGOTIATIONS.
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